

OFFICE OF REPORTS AND ESTIMATES, CIA
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INTELLIGENCE HIGHLIGHTS -- WEEK OF 16 MARCH - 22 MARCH 1948

GENERAL

Philippines - USSR cement relations

The US Embassy Manila has confirmed reports that several Soviet vessels are scheduled to arrive in Manila beginning the end of March to unload a cargo of a million bags of Manchurian cement (approximately 50,000 tons) recently purchased by the Philippine Government through a firm in Shanghai. This cement is presumably a substantial part of the production of a Dairen cement plant which the Pauley Mission reported intact and producing at the rate of about 100,000 tons per year. The Philippine Government is apparently facilitating the carrying out of the trade relations with the USSR which were reported earlier (see FE/P Weekly 17-23 February). Unconfirmed press reports indicate that the Philippine Foreign Office will attempt to return three Russian deportees on these Soviet vessels.

Purchases of cement from other Far Eastern countries have also been made recently by the Philippine Government in an attempt to satisfy its requirements for rehabilitation purposes. The first direct trade contact between Formosa and the Philippines includes cargoes of cement totalling about 12,000 tons. A recent arrangement with SCAP involves the exchange of 6,000 tons of Japanese cement in exchange for Philippine coal. It has also been reported that cement has been purchased from HongKong and Indochina.

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JAPAN

Growth of anti-communism in Japanese labor unions. Over the past year there has been a marked development of anti-communism in Japan's trade unions which indicates a growing awareness by union members of the dangers of minority control over their organizations. It was not until late December, 1947 that efforts to start organizing this movement on a nation-wide scale were made and the movement may not be expected to lead to an immediate and decisive elimination of Communist influence in trade unions. However, anti-communist action has served to bring into the open the close relationship between the Japanese Communist Party and the National Congress of Industrial Unions. (N.C.I.U.)

Within the past week typical anti-communist developments were the organization of a Democratization League among the All Japan Government Communications Workers Union members in the Tokyo area and the victory scored by the anti-communist faction of the Government Railway Worker's Union at the recent national convention in electing their candidates for the chairmanship and vice chairmanship over the Communist-backed candidate.

The Communist faction of the N.C.I.U. has naturally recognized the threat involved in the anti-communist movement. Its strategy may be expected to counter with claims that the "Democratization" movement is a tool of the government and is calculated to divide unions. The Communist group will probably seize labor strife as a counter measure and it is not unlikely that recent strikes by Communist-dominated unions is its reply to the anti-communist drive.

US support of FEC-230 withdrawn. Department of State has advised Army that US support of FEC-230 in the form in which it is written has been withdrawn. The US representative to the FEC is to do everything possible to avoid action but if the paper comes up, he is to indicate that the US no longer supports FEC-230 in its present form and will if necessary veto.

FEC-230, titled "Policy on Excessive Concentrations of Economic Power in Japan" is the US statement of proposed policy with respect to excessive concentration of economic power in Japan. The statement expresses the belief that the existence of the Zaibatsu and the monopolistic controls exercised by the great combines were a major factor in Japanese aggression and that their dissolution is essential. Many of the measures proposed in FEC-230 have already been implemented by the Japanese authorities at the direction or approval of SCAP. For example, last December, the Japanese Diet passed a bill forbidding Zaibatsu executives from working in such companies for a period of ten years, and an economic decentralization bill under which large companies would be split into numerous parts.

The US restudy of the policy in FEC-230 is expected to have little effect upon SCAP's plans for implementing the deconcentration of Japanese economic power. The relevant laws probably will stay on the books, but their administration will be eased.

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KOREA

The postponement from March to April of ratification of the draft constitution of the "Korean Democratic People's Republic" by the North Korean People's Assembly indicates a shift in the Soviet time-table for Korea but not in Soviet plans. The ratification date was moved back in order to bring it closer to 9 May, the scheduled date for South Korean elections. Recent Soviet moves indicate that the USSR is adhering to no fixed time schedule in Korea but is timing its actions for maximum political impact in relation to actions of the US and the UN. The Kremlin is apparently attempting to so time its future moves in North Korea as to make them appear to be mere defensive counter-actions prompted by aggressive US maneuvers in the South.

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CHINAMilitary

In Manchuria the Communists have occupied the rail hub of Ssuping kai, destroying the entire Nationalist garrison which was surrounded and could not withdraw. At present most of the Communist regulars are being resupplied in the Liaoyuan-Meihokou area in preparation for another drive on the Mukden area. Despite the reported Nationalist reoccupation of Liao-chung and Liao-yang, US military observers feel that the absence of substantial materiel and personnel support from intramural China predicates the probable early loss of Manchuria.

In North China the Communists were extremely active over a broad area. Troops of Nieh Yung-chen in the Paoting sector suddenly shifted northwest and, joining with other Communist units on the Chahar-Shansi border, began a series of attacks on the Pingsui (Peiping-Suiyuan) railroad, both east and west of Kalgan and Tatung. The Nationalist-held cities of Tsinan and Weihsien were threatened by Communist activity along the Tsingtao-Tsinan and Tientsin-Pukou rail lines. It is reported that the Nationalists now plan to evacuate Lungkou and Weihaiwei, using these troops, now garrisoning the north coast of the Shantung Peninsula, to reinforce their Manchurian positions. Practically the entire strength of five Chen Yi columns has crossed northward over the Yellow River and are now in the Puyang-Fuksien region. It is not clear just who is in possession of the ancient Chinese capitol city of Loyang with both sides claiming it. However the Communists did succeed in entering the town, reportedly aided by the mutiny of five Nationalist regiments, and making off with considerable stocks of food and materiel. In Shensi, Communist troops, deployed between Sian and Yenan, menace both of those cities as well as the Sian-Lanchow highway, one of the main links in over-land communications to Kansu and Sinkiang in China's far northwest.

Political

Current reports indicate a shuffling of power within the Kuomintang as a result of the critical political and military deterioration of the National Government. The Generalissimo is reported to be shifting away from the CC Clique toward the Political Science Group. The Embassy believes that Chiang Kai-shek will be able to maintain his position despite the discontent with his leadership which has led to rumors of a possible coup d'etat to force his retirement or at least a move to diminish his control over the Government. However, the Embassy believes that some reorganization of the Government may result. The meeting of the Kuomintang Central Executive Committee, now postponed until 28 March, may produce evidence of such developments.

In a conference which Chiang Kai-shek has held with Central China provincial governors and high ranking Nationalist military figures to formulate plans for military administration of Central China, a program for land reform was announced. Such an announcement is probably intended as a political move to gain popular support and satisfy demands for reform both at home and abroad.

Repeated rumors indicate that Ho Ying-chin, who since 1946 has been

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-serving as China's representative on the UN Security Council's Military Staff Committee, will soon return to China where he may take over Chen Cheng's duties as Chief of Staff or possibly be a candidate for the vice presidency. However General Ho himself has denied that he has any ambition to run for vice-president.

Kwangtung Governor T.V. Soong's recent activities in South China suggest that he is planning not only to combine into an economic unit the provinces of Kwangtung, Kwangsi, Hunan, Kiangsi, Fukien and Taiwan, but also to effect a political and military integration of these provinces. This may be a measure designed to assure the preservation of Nationalist territory south of the Yangtze in the event of the loss of Manchuria and North China to the Communists

The British Government is scheduled in the near future to lend to the Chinese Government the cruiser Aurora and the destroyer Lendip. Two submarines will be lent at a later date. British naval assistance to China already includes the lending of a corvette and 8 harbor defense launches, and the training of 1,000 Chinese officers and men to form crews for the ships.

The US owned Shanghai Evening Post has joined the Shanghai and Tientsin US Chambers of Commerce in opposing Senate ratification of the recently negotiated Sino-US Commercial Treaty on the ground that the Treaty reduced US interests to a less favorable position than under the 1943 Treaty.

The Peoples' Political Council, in its last session before dissolution March 28, has passed a resolution urging the Government to demand the return of the Port Arthur and Dairen territory to China.

US Embassy, Nanking, has suggested that ~~that~~, in anticipation of the passage by the US Congress in the China Aid Bill and the inclusion therein of funds specifically allocated to long term economic projects, the US Department of State may consider the advantages of a joint Sino-US industrial commission, similar to the joint Sino-US agricultural mission. The Embassy envisions the services of high caliber US public utility executives and the selection of prominent and qualified Chinese industrialists and officials as members of the commission which would screen requirements, suggest priorities and assess production difficulties. The Embassy also suggests approaching, as an alternative, Overseas Consultant, Inc., New York, to recommend suitable personnel, mentioning that staff members of this concern visited China at the end of 1947 after completion of work in Japan.

Economic

Currency/Prices. The Shanghai market continued erratic the past week, but showed tendencies to level off compared with the previous week. US dollars on the blackmarket made a slight net raise. Improvement in the rationing system caused a substantial reduction in the price of rice. Temporary stability is now chiefly awaiting improvement in cotton stocks (Re FE/P Weekly 9-15 March). With the flight of money to outports where prices are lower and more stable capital has become tight in Shanghai where interest rates were reported at between 30 and 40% per month.

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The Shanghai Market:	US \$ Exchange, Selling Rate		Wholesale Price of Rice per 172 lb picul
	Official "open"	Blackmarket	
This week (19 Mar 48)	CN \$258,500	525,000	CN \$3,450,000
Week ago (12 Mar 48)	197,500	485,000	4,200,000
Month ago (19 Feb 48)	137,000	215,000	2,120,000
Year ago (19 Mar 47)	12,000	12,000	110,000

Premier Chang Chun, Finance Minister O.K. Yui, Governor of the Central Bank Dr. Chang Kai-ngau and K.F. Chen, financial expert, are reported in conference attempting to devise new means to stabilize the currency. They are considering a proposal to set aside a reserve fund of US \$400 million to come chiefly from liquid assets of government owned enterprises such as the China Textile Industries and the China Merchants Steam Navigation Co. and Japanese reparations. This reserve would back the currency as issued, which is presently lacking. This talk is considered more for influencing US aid than a sound solution to China's monetary problems.

The reported critical weakening of the National Government both within the administration and on the military field is having its full impact upon the country's economy.

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SIAM

Arrival of Soviet Minister. The first Soviet Minister to Siam, Serge Mienchina, accompanied by his family and a staff of about thirty members, has finally arrived in Bangkok. Minister Mienchina has been delayed in Shanghai since November for reasons of health. He was preceded last month by a skeleton staff headed by the Second Secretary. Renewal of Siamese Communist Party (SCP) activities coincided with the arrival of the advance staff. An expansion of SCP activities, particularly within the loosely organized labor groups, may be expected, concomitant with the development of Bangkok as the center for communist penetration in Southeast Asia.

PHILIPPINES

Laurel denies anti-Americanism. Jose P. Laurel, president of the Philippines during the Japanese occupation and self-announced candidate for President in 1949 denied at a recent press conference that he is anti-American. Specifically he stated, "I have never been anti-American and am not anti-American or anti-foreign." It is interesting to note in this connection that in his plea for bail before the People's Court on 3 September 1946, Laurel declared, "The American Government decorated Vainwright because he was a victim of American unpreparedness but no mention is made of the Filipino people who were also victims of America's unpreparedness. I don't like America. You may adore America--I don't."

Roxas appeals for Philippine unity. In an address to graduates of the University of Santo Tomas on 20 March, President Roxas appealed for unity among Filipinos in face of the present world crisis. Commenting on the world situation and alluding to current political rivalries within the Philippines, he stated, "We suffered too terribly in the last war to permit personal or partisan motives to obstruct the unity of this nation in these days of stress."

The following day Laurel stated pointedly that he will not push his candidacy for President in 1949 if Roxas does not run ("I will not run if Roxas will not."), and that whoever runs for President is acceptable to him.

Constabulary ordered to arrest dissidents. Interior Secretary Zulueta issued an order on 16 March outlining the steps to be taken for immediate arrest of Huks and PKM (National Peasants Union) members whose organizations President Roxas outlawed 6 March. Zulueta had earlier advocated a 30-day period of grace during which dissidents would have an opportunity to divorce themselves from the two organizations. His order for immediate arrest of the dissidents, however, followed a conference with the President who apparently refused to delay action.

Constabulary operations against the two outlawed organizations are expected to proceed after the civilian population of Central and Southern Luzon has been screened. Plans tentatively agreed upon consist of identifying and registering all citizens; operation screening teams will detain those with criminal records.

PHILIPPINES (continued)

It is likely that opposition to the Roxas Administration will be strengthened by this latest attempt of the Government to liquidate dissident groups. Senator Osias, leading minority figure in the Senate, has indicated that he may seek a legal test of President Roxas' order. Osias believed that if Filipinos accept the theory that Roxas by a stroke of the pen could outlaw any organization "then we are on the road to totalitarianism."

AUSTRALIA

Labor Government faces crisis over Communism. The problem of Communism in Australia is receiving increasing attention from government officials, political leaders, and the press. Responsible factors are the critical state of international relations and a renewed wave of strikes at home, particularly in the vital coal and transport industries.

The Opposition parties have publicized their discussions of a bill to outlaw the Communist Party and ban affiliated organizations. The Labor Government has announced that it has no intention of declaring the Party illegal but is expected to devote its April 6th Party caucus to a discussion of the problem and ways in which it can be met.

The issue for the Labor Government is complicated by the decline in its political fortunes, partly attributable to uncontrolled Communist activities in the labor field. Any revision in its traditional stand on the Communist Party's right to exist will involve consideration of the following factors: (1) the value or otherwise of Communist support at the 1949 elections; (2) the fear that some of the large unions controlled by the Communists will disaffiliate from the Australian Labor Party (ALP) if an open break is made while the union executives are still Communist dominated; and (3) the possibility that the drastic counter measures necessary to combat militant strike action will alienate large sections of the trade union movement who are not Communists but who see fundamental labor rights threatened. Such bills as the Essential Services Bill of Victoria and the Anti-Ticketing Law of Queensland have been protested by unions throughout Australia. If elimination of the Communists would reduce the incidence of direct strike action, it would be politically unsound as well as unrealistic to allow their continued existence to jeopardize the unity of the Labor movement as a whole.

Meanwhile, the ALP is directing its efforts toward reducing Communist influence in the unions. Its chief weapon in this connection is enforcement of the ALP rule that ALP candidates and members must follow Party policy and elect officials endorsed by the Party in both union and national elections. The visit of Sir Percy Sillitoe, UK authority on subversive groups, indicates that internal security measures are being strengthened, although the Prime Minister has stated that there is no need for Australia to follow the UK's lead in transferring Communists from sensitive positions in the public service.

In Queensland the Labor Government has concluded an agreement with a British company to exploit the Blair Athol open cut coal mines. This will reduce the power of the Communists to paralyze the entire economy through their control of the Miners Federation. Open cut work is under the jurisdiction of

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AUSTRALIA (continued)

the moderate Australian Workers Union, and Blair Athol can supply an alternative source of coal in the event of strikes in the New South Wales fields.

There are no indications as yet of specific Australian Communist Party reaction to the present upsurge of interest in Communist activities. L. L. Sharkey, President of the Party, is in Singapore awaiting passage to Australia after attending a conference of the Indian Communist Party. He is reported to be anxious over the situation in Australia. The Communists have not, however, relaxed their efforts in connection with the Queensland railroad strike. Several prominent Communist trade union leaders were arrested in a series of clashes between the strikers and police. Among the injured was Fred W. Paterson, Communist member of the Queensland Legislature and the only known Communist in an elected legislative body in Australia.

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